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(Securities Code: 1861)

June 7, 2017

To Our Shareholders

Yasushi Higuchi, President  
Kumagai Gumi Co., Ltd.  
Head Office: 2-6-8, Chuo, Fukui-shi  
Tokyo Head Office: 2-1, Tsukudo-cho,  
Shinjuku-ku, Tokyo

## CONVOCATION NOTICE OF THE 80TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Sirs and Madams:

Notice is hereby given that the 80th Ordinary General Meeting of Shareholders of Kumagai Gumi Co., Ltd. (the “Company”) will be held as set forth below. You are cordially invited to attend the meeting.

**If you are not able to attend the meeting, you may exercise your voting rights in writing or via the Internet, etc. After examining the reference materials for the ordinary general meeting of shareholders set forth below, please exercise your voting rights no later than 5:30 p.m. on Wednesday, June 28, 2017.**

### Description

1. **Date and Time:** 10:00 a.m. on Thursday, June 29, 2017
2. **Place:** Tokyo Head Office of the Company, Main Conference Room  
2-1, Tsukudo-cho, Shinjuku-ku, Tokyo
3. **Purpose:**  
**Matters to Be Reported:** 1. Report on the contents of the Business Report for the 80th fiscal year (from April 1, 2016 to March 31, 2017), on the contents of the consolidated financial statements and on

- the results of audit of the consolidated financial statements by the Accounting Auditors and the Audit & Supervisory Board
2. Report on the contents of the nonconsolidated financial statements for the 80th fiscal year (from April 1, 2016 to March 31, 2017)

**Matters to Be Resolved:**

- Proposal 1:** Dividends from surplus
- Proposal 2:** Share consolidation
- Proposal 3:** Appointment of seven (7) Directors
- Proposal 4:** Appointment of two (2) Audit & Supervisory Board Members
- Proposal 5:** Appointment of one (1) Substitute Audit & Supervisory Board Member

**4. Guide to Exercising Voting Rights**

- (1) Exercise of voting rights by postal mail

Indicate your approval/disapproval for each proposal in the enclosed Voting Form, and send the completed form to us so that it reaches us by the above deadline for the voting.

- (2) Exercise of voting rights by electromagnetic methods (using the Internet, etc.)

Please access the website specified by the Company for exercising voting rights (<http://www.web54.net>) and enter your “Code for Exercising Voting Rights” and the “password” indicated in the enclosed Voting Form. Follow the instructions on the screen and enter your approval/disapproval for each proposal.

To exercise voting rights via the Internet, etc., please refer to the “Guide to Exercising Voting Rights via the Internet, etc.” on page 21.

If you exercise your voting rights both by sending the Voting Form and via the Internet, the vote made via the Internet, etc. shall be deemed effective.

[End of Notice]

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- \* Upon arrival at the meeting, please submit the Voting Form enclosed herewith to the reception at the entrance to the meeting place.
  - \* Among the statements to be provided upon this Convocation Notice, “the notes to the consolidated financial statements” and “the notes to nonconsolidated financial statements” are disclosed by being posted on the Company’s website (<http://www.kumagaigumi.co.jp/>) pursuant to laws and regulations and the provisions of the Articles of Incorporation and are therefore not described in the attachment to this Convocation Notice. Please note that the consolidated

**financial statements and nonconsolidated financial statements described in the attachment to this Convocation Notice are part of the consolidated financial statements and nonconsolidated financial statements audited by the Accounting Auditors and Audit & Supervisory Board Members upon preparing the Accounting Audit Report and Audit Report, respectively.**

- \* If any modifications are made to the reference materials for the ordinary general meeting of shareholders, as well as the business report, nonconsolidated financial statements or consolidated financial statements, such modifications will be posted on the Company's website (<http://www.kumagaigumi.co.jp/>).**

## Reference Materials for Ordinary General Meeting of Shareholders

### Proposal and Reference Matters

#### **Proposal 1:** Dividends from surplus

While striving to make stable distributions from a shareholder-oriented viewpoint and enhancing retained earnings to strengthen management foundation and expand operating revenue, in light of the operating results for the current business term and anticipating stable growth under the future business environment, the Company proposes to increase the amount of dividends with respect to the dividends for the 80th fiscal year as follows:

- (1) Type of Distributed Assets  
Cash
- (2) Matters Related to Allotment of Distributed Assets and Aggregate Amount Thereof  
The Company proposes to make cash dividend payments of JPY 7 per share in respect of the common stock of the Company.  
In this case, the total amount of dividend will amount to be JPY 2,621,133,158.
- (3) Effective Date of Dividends from Surplus  
June 30, 2017.

## **Proposal 2: Share consolidation**

### **1. Purpose of consolidation**

The Japanese Stock Exchanges announced the “Action Plan for Consolidating Trading Units,” which seeks to standardize the trading units for common shares issued by listed domestic companies at 100 shares. As a company listed on the Tokyo Stock Exchange, the Company respects the objective of this plan, and resolved at its meeting of the board of directors held on May 12, 2017 to change the share trading units of the Company from the current 1,000 shares to 100 shares, subject to the approval of this Proposal. Concurrently, the Company will consolidate its shares so that the shares of the Company can be maintained at the level of investment units considered desirable by the Stock Exchanges (JPY 50,000 or more but less than JPY 500,000), considering the fluctuations of the medium- to long-term share prices and for the purpose of adjusting the investment unit to an appropriate level.

### **2. Details of consolidation**

#### **(1) Consolidation ratio**

The Company proposes to consolidate every ten (10) shares into one (1) share with respect to the Company’s common shares.

If a fraction of less than one (1) share is created due to the share consolidation, all of such shares will be disposed of together in accordance with Article 235 of the Companies Act and the proceeds of such disposal will be distributed to the shareholders who held fractional shares in proportion to the number of fractional shares they held.

#### **(2) Effective date of consolidation**

October 1, 2017.

#### **(3) Total number of authorized shares as of the effective date**

71,400,000 shares

By conducting the share consolidation, the Company shall be deemed to have amended its Articles of Incorporation pertaining to the total number of authorized shares as of the effective date pursuant to the provisions of Article 182, Paragraph 2 of the Companies Act.

[Reference]

If this Proposal is approved, a part of the Articles of Incorporation of the Company shall be amended as of October 1, 2017, as follows:

(Underlines reflect the amendments)

Current Articles of Incorporation	Proposed Amendments to the Articles of Incorporation
<p>Chapter II. Shares</p> <p>Article 6. (Total Number of Shares Authorized to Be Issued)</p> <p>The total number of shares authorized to be issued by the Company shall be <u>seven hundred fourteen million (714,000,000)</u> shares.</p> <p>Article 8. (Number of Shares Constituting One Unit of Shares)</p> <p>The number of shares constituting one unit of shares of the Company shall be <u>one thousand (1,000)</u> shares.</p>	<p>Chapter II. Shares</p> <p>Article 6. (Total Number of Shares Authorized to Be Issued)</p> <p>The total number of shares authorized to be issued by the Company shall be <u>seventy-one million four hundred thousand (71,400,000)</u> shares.</p> <p>Article 8. Number of Shares Constituting One Unit of Shares</p> <p>The number of shares constituting one unit of shares of the Company shall be <u>one hundred (100)</u> shares.</p>

**Proposal 3:** Appointment of seven (7) Directors

Mr. Toshiaki Hotta, Senior Managing Director, resigned as of March 31, 2017, and the terms of office of all seven (7) Directors will expire at the closing of this ordinary general meeting of shareholders. Therefore, the Company proposes the appointment of seven (7) Directors.

The candidates for Directors are as follows:

**Candidates for Directors**

Candidate No.	Name (Date of Birth)	Brief Personal Record, Title and Assignment in the Company and Status of Major Concurrent Offices		Number of Shares Owned by Candidate
1	Yasushi Higuchi (Born on February 14, 1952)	April 1976	Joined the Company	42,000 shares
		June 2003	Representative Director and President of K&E Co., Ltd.	
		April 2008	Executive Officer of the Company	
		April 2008	Branch Manager of the Tohoku Branch of the Company	
		April 2011	Managing Executive Officer of the Company	
		July 2011	Branch Manager of the Kansai Branch of the Company	
		April 2012	Senior Managing Executive Officer of the Company	
		April 2013	Executive Vice President of the Company	
		April 2013	General Manager of the Architectural Management Division of the Company	
		April 2013	General Manager of the Architectural Design Management Division of the Architectural Management Division of the Company	
June 2013	President of the Company (current)			

		June 2013	Executive President of the Company (current)	
	<p>&lt;Reason for selecting him/her as candidate for Director&gt;</p> <p>In addition to extensive business experience in the Architectural Management Division, Mr. Higuchi has an abundant management record, having held positions as the President of our subsidiary, K&amp;E Co., Ltd., and the Branch Manager of the Tohoku Branch as well as the Kansai Branch. In addition, he has played a leading role for the Group as the Representative Director and President since June 2013 and has strived to improve the corporate value of the Company under the slogan of “Management by All.” The Company proposes that Mr. Higuchi’s appointment as a Director continue based on its evaluation that he has appropriately fulfilled his role as a Director by making important management decisions and supervising the execution of operations and its judgment that it would be valuable for the management of the Company to utilize his past experiences.</p>			
2	Susumu Ogawa (Born on August 29, 1957)	April 2010	Manager of Public and Finance Institutions of Sumitomo Mitsui Banking Corporation	18,000 shares
April 2012		Senior Inspector of the Audit Department of Sumitomo Mitsui Banking Corporation		
June 2012		Executive Advisor of the Company		
July 2012		Managing Executive Officer of the Company		
July 2012		In charge of the Marketing of Architectural Management Division of the Company		
June 2013		Managing Director of the Company		
April 2014		Senior Managing Director of the Company (current)		
April 2014		Senior Managing Executive Officer of the Company (current)		
April 2014		In charge of New Business/ International Business/Domestic Architectural Marketing of the Company		

		April 2015	In charge of International Business/ Domestic Architectural Marketing of the Company	
		April 2017	In charge of International Business, In charge of Marketing of the Company (current)	
<p>&lt;Reason for selecting him/her as candidate for Director&gt;</p> <p>After Mr. Ogawa joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation), in addition to abundant overseas experience from being involved in international finance in the United States where he was dispatched, he has held a number of senior positions, such as the Manager of Public and Finance Institutions. Furthermore, after joining the Company, he has extensive business experience from being in charge of the Domestic Architectural Marketing, in addition to the International Business. The Company proposes that Mr. Ogawa's appointment as a Director continue based on its evaluation that he has appropriately fulfilled his role as a Director by making important management decisions and supervising the execution of operations and its judgment that it would be valuable for the management of the Company to utilize his past experiences.</p>				
3	Yasunori Sakurano (Born on July 2, 1957)	April 1981	Joined the Company	30,000 shares
		April 2010	General Manager of the Personnel Department of the Administration Division of the Company	
		April 2011	Executive Officer of the Company	
		April 2012	In charge of the Planning Office of the Company	
		April 2012	In charge of the Public Relations Office of the Company	
		April 2012	In charge of the CSR Promotion Office of the Company	
		June 2012	Director of the Company	
		July 2012	General Manager of the Planning Office of the Company	
		April 2014	Managing Director of the Company	

		April 2014	Managing Executive Officer of the Company	
		April 2014	General Manager of the Management & Administration Division of the Company	
		April 2014	Manager of the Corporate Planning Department of the Management & Administration Division of the Company	
		April 2015	General Manager of the Corporate Planning Division of the Company (current)	
		April 2016	General Manager of the Diversity Promotion Office of Corporate Planning Division of the Company	
		April 2017	Senior Managing Director of the Company (current)	
		April 2017	Senior Managing Executive Officer of the Company (current)	
<p>&lt;Reason for selecting him/her as candidate for Director&gt;</p> <p>Mr. Sakurano, having held a number of senior positions such as General Manager of the Personnel Department and the General Manager of the Planning Office since he joined the Company and thereafter assumed the position of the General Manager of the Management &amp; Administration Division, has a record of playing a leading role in developing the Midterm Management Plan (Fiscal years 2015-2017) of the Company. Furthermore, he has held the position of the General Manager of the Corporate Planning Division since April 2015 and strived to develop new business and improve the long-term corporate value of the Company with group growth strategies, etc. The Company proposes that Mr. Sakurano's appointment as a Director continue based on its evaluation that he has appropriately fulfilled his role as a Director by making important management decisions and supervising the execution of operations and its judgment that it would be valuable for the management of the Company to utilize his past experiences.</p>				
4	Yoshihiko Kato (Born on August 24, 1958)	April 1982	Joined the Company	16,000 shares
		April 2013	Executive Officer of the Company	
		April 2013	Deputy General Branch Manager	

			of the Tohoku Branch of the Company	
		April 2013	In charge of Earthquake Recovery at the Tohoku Branch of the Company	
		April 2014	Managing Executive Officer of the Company	
		April 2014	General Manager of the Civil Engineering Management Division of the Company (current)	
		June 2014	Managing Director of the Company	
		May 2016	General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division of the Company (current)	
		April 2017	Senior Managing Director of the Company (current)	
		April 2017	Senior Managing Executive Officer of the Company (current)	
<p>&lt;Reason for selecting him/her as candidate for Director&gt;</p> <p>Mr. Kato has extensive knowledge and abundant business experience in the Civil Engineering Management Division, having been engaged in the Civil Engineering Management Division since he joined the Company and been involved in excavating work on numerous tunnel, held a number of senior positions such as the General Manager of the Technical Center, East Japan Area of the Civil Engineering Management Division and a Tohoku Branch Deputy General Manager/In charge of Earthquake Recovery and thereafter assumed the position of the General Manager of the Civil Engineering Management Division. The Company proposes that Mr. Kato's appointment as a Director continue based on its evaluation that he has appropriately fulfilled his role as a Director by making important management decisions and supervising the execution of operations and its judgment that it would be valuable for the management of the Company to utilize his past experiences.</p>				

5	Candidate for Outside Director	April 1968	Joined FUJITSU LIMITED	4,000 shares
	Koichi Hironishi (Born on July 7, 1945)	April 2001	General Manager of the Consumer Transaction Division of FUJITSU LIMITED	
		June 2003	Representative Director and President of Fujitsu Advanced Solutions Limited	
		May 2005	Corporate Executive Officer of FUJITSU LIMITED	
		June 2008	Director and Vice President of FUJITSU LIMITED	
		June 2009	Representative Director and Vice President of FUJITSU LIMITED	
		April 2010	Representative Director of FUJITSU LIMITED	
		June 2010	Retired from FUJITSU LIMITED	
		June 2010	Representative Director and Chairman of FUJITSU FSAS INC.	
		June 2012	Retired from FUJITSU FSAS INC.	
		June 2015	Director of the Company (current)	
		Independent		
<p>&lt;Reason for selecting him/her as candidate for Outside Director&gt;</p> <p>Mr. Hironishi has an abundant management record, having held a number of senior positions such as the General Manager of the Consumer Transaction Division after joining FUJITSU LIMITED and assumed the position of a Representative Director of FUJITSU LIMITED and its group companies. The Company proposes that Mr. Hironishi's appointment as an Outside Director continue based on its evaluation that he has appropriately fulfilled his role as a Director by making important management decisions and supervising the execution of operations and its judgment that the Company can expect to receive appropriate guidance and advice with respect to the management of the Company because of his abundant experience and extensive knowledge accumulated from his past performance.</p> <p>&lt;Matters concerning independence&gt;</p> <p>Mr. Hironishi satisfies the requirements for independent officers set forth in the rules of the Tokyo Stock Exchange. Furthermore, he satisfies the Company's Criteria for Determination</p>				

	of Independence set forth on page 20 below and the Company has notified the Tokyo Stock Exchange that he is an independent officer.			
6	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Independent</div> Mikie Yumoto (Born on August 5, 1947)	April 1971 May 1981 January 1995 January 1997 January 1999 January 2002 January 2003 December 2005 January 2006 June 2016	Joined IBM Japan, Ltd. Joined American Family Life Assurance Company of Columbus, Japan Branch (abbrev. Aflac: American Family Life Assurance Company) Manager of the Human Resources Development Department of Aflac Director of Aflac (In charge of Human Resources /Education/Employees' Pension Fund/Health Insurance Association) Executive Officer of Aflac (In charge of Human Resources/Education /Employees' Pension Fund/Health Insurance Association) Executive Officer of Aflac (In charge of the Customer Service Division/Fee Division) Advisor of Aflac Retired from Aflac Representative of Rischiare Consulting (current) Director of the Company (current)	2,000 shares
<Reason for selecting him/her as candidate for Outside Director> Ms. Yumoto has business experience in hiring and educating numerous employees as the Manager of the Human Resources Development Department after joining American Family				

	<p>Life Assurance Company of Columbus, Japan Branch (abbrev. Aflac: American Family Life Assurance Company) as well as a record of participating in management as officer in charge of Human Resources. Furthermore, currently, she is working on issues such as diversity management, work-life balance, promoting female advancement through giving lectures at corporations and universities as the Representative of Rischiare Consulting. The Company proposes that Ms. Yumoto's appointment as an Outside Director continue based on its judgment that the Company can expect to receive appropriate guidance and advice with respect to the management of the Company because of her abundant experience and extensive knowledge accumulated from her past performance.</p> <p>&lt;Matters concerning independence&gt;</p> <p>Ms. Yumoto satisfies the requirements for independent officers set forth in the rules of the Tokyo Stock Exchange. Furthermore, she satisfies the Company's Criteria for Determination of Independence set forth on page 20 below and the Company has notified the Tokyo Stock Exchange that she is an independent officer.</p>			
7	<p><u>New Appointment</u></p> <p>Yoshiaki Ogawa (Born on June 19, 1958)</p>	<p>April 1982</p> <p>April 2011</p> <p>April 2011</p> <p>April 2011</p> <p>April 2011</p> <p>April 2012</p> <p>April 2013</p> <p>April 2013</p> <p>April 2017</p> <p>April 2017</p>	<p>Joined the Company</p> <p>Executive Officer of the Company</p> <p>General Manager of the Architectural Management Department of the Kansai Branch of the Company</p> <p>Architectural Management Manager of the Architectural Management Department of the Kansai Branch of the Company</p> <p>Deputy General Branch Manager of the Kansai Branch of the Company</p> <p>Managing Executive Officer of the Company</p> <p>Branch Manager of the Kansai Branch</p> <p>Senior Managing Executive Officer of the Company (current)</p> <p>General Manager of the Architectural Management Division of the Company</p>	<p>27,100 shares</p>

			(current)	
<p>Mr. Ogawa, has extensive knowledge and abundant business experience in the Architectural Management Division, having been engaged in the Architectural Management Division since he joined the Company and held positions such as the Project Manager of large-scale construction work and the General Manager of the Architectural Management Department. Furthermore, he has a record of regional management as the Branch Manager of the Kansai Branch from April 2013 to March 2017. The Company proposes to newly appoint Mr. Ogawa as a Director based on its judgment that it would be valuable for the management of the Company to utilize his past experiences.</p>				

- (Note)
1. There is no special interest between each candidate and the Company.
  2. Mr. Koichi Hironishi is currently the Outside Director of the Company, and as of the closing of this ordinary general meeting of shareholders, he will have been the Outside Director for two (2) years since assuming the position of the Outside Director.
  3. Ms. Mikie Yumoto is currently the Outside Director of the Company, and as of the closing of this ordinary general meeting of shareholders, she will have been the Outside Director for one (1) year since assuming the position of the Outside Director.
  4. The Company has entered into liability limitation agreements with Mr. Koichi Hironishi and Ms. Mikie Yumoto which limit the liability for damages set forth in Article 423, Paragraph 1 of the Companies Act to the amount prescribed by laws and regulations pursuant to the provisions of Article 427, Paragraph 1 of the said Act, and the Company plans to renew such agreements if they are reelected.

**Proposal 4:** Appointment of two (2) Audit & Supervisory Board Members

The terms of office of Mr. Tsukasa Yoshikawa, Full-Time Audit & Supervisory Board Member, will expire at the closing of this ordinary general meeting of shareholders, and Mr. Tadanao Takema, Full-Time Audit & Supervisory Board Member, will resign at the closing of this ordinary general meeting of shareholders.

Therefore, the Company proposes to appoint two (2) Audit & Supervisory Board Members. The Company has obtained the consent of the Audit & Supervisory Board with respect to this Proposal.

The candidates for Audit & Supervisory Board Members are as follows:

**Candidates for Audit & Supervisory Board Members**

Candidate No.	Name (Date of Birth)	Brief Personal Record, Title in the Company and Status of Major Concurrent Offices		Number of Shares Owned by Candidate
1	Tsukasa Yoshikawa (Born on September 8, 1955)	April 1978	Joined the Company	21,400 shares
		July 2001	General Manager of the Accounting Department of the Finance Division of the Company	
		October 2003	General Manager of the Accounting Department of the Administration Division of the Company	
		June 2008	General Manager of the Audit Office of the Company	
		June 2013	Full-Time Audit & Supervisory Board Member of the Company (current)	
<p>&lt;Reason for selecting him/her as candidate for Audit &amp; Supervisory Board Member&gt;            Mr. Yoshikawa has considerable knowledge concerning finance and accounting, having held positions such as the General Manager of the Accounting Department of the Company, as well as extensive knowledge and abundant practical experience in the internal audit department, having held positions such as the General Manager of the Audit Office. The Company proposes that Mr. Yoshikawa's appointment as an Audit &amp; Supervisory Board Member continue based on its evaluation that the Company can expect to receive appropriate auditing of the management of the Company utilizing his experience accumulated from his past performance.</p>				

2	<u>New Appointment</u>	April 1981	Joined the Company	5,000 shares
	Junji Konishi (Born on July 18, 1958)	April 2007	General Manager of the Administration Department of the Kyushu Branch of the Company	
		April 2010	General Manager of the Administration Department of the Chushikoku Branch of the Company	
		April 2014	Assistant General Manager of the Chushikoku Branch of the Company (current)	
<p>&lt;Reason for selecting him/her as candidate for Audit &amp; Supervisory Board Member&gt;</p> <p>Mr. Junji Konishi has extensive knowledge and abundant business experience in the Administration Division, having held a number of senior positions such as the General Manager of the Administration Department of the Kyushu Branch and the General Manager of the Administration Department of the Chushikoku Branch and thereafter assumed the position of an Assistant General Manager of the Chushikoku Branch. The Company proposes to newly appoint Mr. Konishi as an Audit &amp; Supervisory Board Member based on its evaluation that the Company can expect to receive appropriate auditing of the management of the Company utilizing his experience accumulated from his past performance.</p>				

- (Note)
1. There is no special interest between each candidate and the Company.
  2. The Company has entered into a liability limitation agreement with Mr. Tsukasa Yoshikawa which limits the liability for damages set forth in Article 423, Paragraph 1 of the Companies Act to the amount prescribed by laws and regulations pursuant to the provisions of Article 427, Paragraph 1 of the said Act, and the Company plans to renew such agreement if he is reelected.
  3. If Mr. Junji Konishi is appointed, the Company plans to enter into a liability limitation agreement which limits the liability for damages set forth in Article 423, Paragraph 1 of the Companies Act to the amount prescribed by laws and regulations pursuant to the provisions of Article 427, Paragraph 1 of the said Act.

**Proposal 5:** Appointment of one (1) Substitute Audit & Supervisory Board Member  
 In preparation for an event where that the number of Audit & Supervisory Board Members falls short of the number stipulated in laws and regulation, the Company proposes the appointment of Substitute Audit & Supervisory Board Member in advance. The Company has obtained the consent of the Audit & Supervisory Board with respect to this Proposal.  
 The candidate for Substitute Audit & Supervisory Board Member is as follows:

**Candidate for Substitute Audit & Supervisory Board Member**

Name (Date of Birth)	Brief Personal Record, Title in the Company and Status of Major Concurrent Offices		Number of Shares Owned by Candidate
<u>Independent</u> Akira Maekawa (Born on October 9, 1972)	April 1999	Admitted to Bar of Japan	- shares
	April 1999	Joined Okamura Law Office	
	February 2006	Financial Securities Inspector of the Kanto Local Finance Bureau of the Ministry of Finance	
	January 2008	Joined Masuda & Partners Law Office	
	August 2009	Established Maekawa Akira Law Office	
	February 2011	Joined IOTA Law Office (current)	
	April 2016	Deputy Chairman of the Daiichi Tokyo Bar Association	

<Reason for selecting him/her as candidate for Substitute Audit & Supervisory Board Member>  
 In addition to professional expertise and abundant practical experience as an attorney-at-law, Mr. Maekawa has served with the Kanto Local Finance Bureau of the Ministry of Finance from February 2006 to January 2008 and has engaged in enhancement of the risk structures of financial institutions and facilitation of financial system as Financial Securities Inspector. The Company proposes to appoint Mr. Maekawa as a Substitute Audit & Supervisory Board Member based on its judgment that the Company can expect to receive appropriate auditing of the management of the Company from an objective standpoint utilizing his abundant experience accumulated from his past performance and legal knowledge. Although he has not previously been engaged in the management of a company, the Company believes he will fulfill the duties of an Outside Audit & Supervisory Board Member appropriately due to the reasons stated above.

<Matters concerning independence>  
 Mr. Maekawa satisfies the requirements for independent officers set forth in the rules of the Tokyo Stock Exchange. Furthermore, he satisfies the Company's Criteria for Determination of Independence set forth on page 20 below and if he assumes the position of Outside Audit & Supervisory Board Member, the Company will notify the Tokyo Stock Exchange that he becomes an independent officer.

(Note) 1. There is no special interest between the candidate and the Company.

2. Mr. Akira Maekawa is to be appointed as substitute for Outside Audit & Supervisory Board Member.
3. If Mr. Akira Maekawa is appointed, the Company plans to enter into a liability limitation agreement which limits the liability for damages set forth in Article 423, Paragraph 1 of the Companies Act to the amount prescribed by laws and regulations pursuant to the provisions of Article 427, Paragraph 1 of the said Act.

**(Reference)**

<Company's Criteria for Determination of Independence>

In addition to the Independence Standards prescribed by the Tokyo Stock Exchange, the Company determines that any person falling under the following criteria is not independent.

- (1) A person who currently falls under any of (a) through (d) below:
  - (a) a major shareholder of the Company (a shareholder holding 10% or more voting rights in the Company) or a person who executes business thereof;
  - (b) a person/entity whose annual trading amount with the Company is over 2% of the consolidated total sales of the most recent fiscal year of the Company and trading person/entity, respectively, or a person who executes business thereof;
  - (c) a person/entity who has received donations from the Company in the amount of JPY 10 million or more on average for the past three (3) fiscal years or a person who executes business thereof;
  - (d) a legal professional, accounting professional, consultant or a person belonging to any of those associations who has received cash or other economic benefits from the Company, except for officer compensation, in the amount of JPY 10 million or more on average for the past three (3) fiscal years.
  
- (2) A person who fell under any of (a) through (d) above at any time during the past three (3) years.

[End]

## **Guide to Exercising Voting Rights via the Internet, etc.**

If you are exercising your voting rights via the Internet, etc., please acknowledge the following matters in advance.

### **1. Website for Exercising Voting Rights**

Voting rights may be exercised only through the following website specified by the Company for exercising voting rights.

URL of the website for exercising voting rights: <http://www.web54.net>

\*The website for exercising voting rights may be accessed by scanning the “QR Code<sup>®</sup>” (shown to the right) with your cellular phone bar-code scanner. For details of this operation, please refer to your cellular phone instruction manual.



Image of  
the “QR  
Code”

(QR Code is a registered trademark of DENSO WAVE INCORPORATED)

### **2. Exercising Voting Rights**

- (1) To exercise voting rights via the Internet, please enter your “Code for Exercising Voting Rights” and “password” indicated in the enclosed Voting Form, follow the instruction on the screen and enter approval/disapproval for the respective proposals.
- (2) The deadline for exercising your voting rights is 5:30 p.m. on Wednesday, June 28, 2017, and we ask you to exercise your voting rights ahead of time.
- (3) If you exercise your voting rights twice both by sending the Voting Form and via the Internet, etc., the votes submitted via the Internet, etc. will be deemed effective. Furthermore, if you exercise your voting rights more than once via the Internet, etc. or both by personal computer and by cellular phone, only your most recent exercise of voting rights will be accepted as effective.
- (4) The fees incurred for internet service providers and communications operators upon using the website (i.e., connection fees) to exercise voting rights shall be borne by the shareholder.

### **3. Handling of Password and Code for Exercising Voting Rights**

- (1) Passwords are important information to verify the identity of the person exercising voting rights as a shareholder. As is the case with personal seals and security codes, please do not disclose them to others.
- (2) Your password will be invalidated if an incorrect password is entered for a certain number of times. If you wish to have your password reissued, please follow the

procedures on the screen.

- (3) The Code for Exercising Voting Rights described in the Voting Form is effective only for this ordinary general meeting of shareholders.

#### **4. System Requirements**

If you are exercising your voting rights via the Internet, please confirm the following with respect to the system that you are using:

- (1) If accessing website from a personal computer
- A. The screen resolution is greater than 800x600 dots (SVGA).
  - B. The following applications are installed:
    - (a) Web browser: Microsoft<sup>®</sup> Internet Explorer Ver. 5.01 SP2 or later.
    - (b) PDF file viewer: Adobe<sup>®</sup> Acrobat<sup>®</sup> Reader<sup>®</sup> Ver. 4.0 or later, or Adobe<sup>®</sup> Reader<sup>®</sup> Ver. 6.0 or later
- \* Internet Explorer is the registered trademark, trademark and product name of Microsoft Corporation in the U.S. and worldwide; and Adobe<sup>®</sup> Acrobat<sup>®</sup> Reader<sup>®</sup> and Adobe<sup>®</sup> Reader<sup>®</sup> are the registered trademarks, trademarks and product names of Adobe Systems Incorporated in the U.S. and worldwide.
- \* These software are distributed on the website of each company free of charge.
- (2) If accessing the website from a cellular phone
- A model capable of encrypted communication of 128bit SSL (Secure Socket Layer)

#### **5. Contact Information for Inquiries Regarding Operation of Personal Computer, etc.**

- (1) **For inquiries regarding operation of personal computer or cellular phone, etc., to exercise voting rights via website, please contact:**

Sumitomo Mitsui Trust Bank, Stock Transfer Agency Web Support  
[Telephone] (toll free) 0120-652-031 (Operating Hours: 9:00 a.m. to 9:00 p.m.)

- (2) **For other inquiries:**

- A. Shareholders who hold an account with a securities company:  
If you hold an account with a securities company, please inquire with your securities company.
- B. Shareholders who do not hold an account with a securities company (shareholders who hold special accounts):  
Sumitomo Mitsui Trust Bank, Stock Transfer Agency Administration Center  
[Telephone] (toll free) 0120-782-031 (Operating Hours: 9:00 a.m. to 5:00 p.m. (excluding Saturdays, Sundays and national holidays))

#### **6. Use of Electronic Voting Platform (for institutional investors)**

With respect to this ordinary general meeting of shareholders, institutional investors may

exercise their voting rights by electronically through the “Electronic Voting Platform” operated by ICJ Incorporated.

(Attachment)

## **BUSINESS REPORT**

(From April 1, 2016 to March 31, 2017)

### **1. Matters Regarding Current Status of Group**

#### **(1) Progress and Results of Operation**

The Japanese economy during this consolidated fiscal year continued to gradually recover, as export and production improved against a backdrop of improving overseas economic conditions, the trend of recovery of the capital expenditures continued in accordance with the improving corporate earnings, and the consumer spending also developed firmly in general.

With respect to the construction industry, business environment developed favorably as public investment continued to maintain its high level, corporate construction investments, driven by civil infrastructure-related investments, gradually increased, and residential investments (mainly in houses for rental use) increased as well.

Under such circumstances, the Group is putting full effort into developing an earning foundation for the future based on the “Midterm Management Plan (Fiscal years 2015-2017)” formulated in May 2015.

With respect to the consolidated results for the Group during this consolidated fiscal year, the net sales increased by 0.3%, compared to the previous consolidated fiscal year, to JPY 344.7 billion. In regard to profit, the operating profit was JPY 25.1 billion and the ordinary profit was JPY 25.3 billion as a result of the improved gross profit margin. Furthermore, the profit attributable to owners of parent was JPY 16.4 billion as a result of recording the provision for contingent loss, income taxes - current, etc.

The results of operations of the Company are as follows:

The orders received decreased by 3.0%, compared to the previous fiscal year, to JPY 284.7 billion, due to a decrease in domestic civil engineering work, etc. Among these orders received, the civil engineering work amounted to JPY 103.7 billion, and the building construction work amounted to JPY 180.9 billion. As for the breakdown by orderer, 21.4% was from government agencies and 78.6% was from private business.

The net sales increased by 2.3%, compared to the previous fiscal year, to JPY 273.7 billion. Among these, the civil engineering work amounted to JPY 91.5 billion and the building construction work amounted to JPY 182.2 billion. As for the breakdown by orderer, 29.0% was from government agencies and 71.0% was from private business.

The amount carried forward to the following business year increased by 3.4%, compared to the previous fiscal year, to JPY 336.2 billion.

With respect to profit, the ordinary profit amounted to JPY 21.8 billion as a result of improved gross profit margin and decrease in reversal of allowance for doubtful accounts, and the profit was JPY 13.9 billion.

The Company's status by division is as follows:

[Civil Engineering]

The orders received for civil engineering work decreased by 5.2%, compared to the previous fiscal year, to JPY 103.7 billion.

The major contracts are: Ministry of Land, Infrastructure, Transport and Tourism: first phase construction work for Mizuumigawa headrace tunnel (Fukui); KITA-OSAKA KYUKO RAILWAY CO., LTD.: civil engineering work relating to the extension business of Kita-Osaka Kyuko Line (Osaka); East Nippon Expressway Company Limited: construction work at Kamariya Junction of Yokohama South Loop Line (Kanagawa); West Nippon Expressway Company Limited: construction work at Azawara tunnel of the Chugoku-Odan Expressway (Hyogo), etc.

The net sales of completed construction contracts increased by 1.5%, compared to the previous fiscal year, to JPY 91.5 billion.

The major completed works are: Ministry of Land, Infrastructure, Transport and Tourism: construction work of Yamada Second Tunnel on the National Route No. 45 (Iwate); Ministry of Land, Infrastructure, Transport and Tourism: construction work of Mitani Tunnel (north side) on the Youka-hidaka Road (Hyogo); Japan Railway Construction, Transport and Technology Agency: establishment, etc. of Itoigawa maintenance facility for Hokuriku Shinkansen (Niigata); INPEX CORPORATION: construction work of Hokujo shield (ii) and others (B-3 construction area) relating to civil engineering work (B construction area) within the construction work of Toyama Line (Toyama), etc.

[Building Construction]

The orders received for building construction work decreased by 1.7%, compared to the previous fiscal year, to JPY 180.9 billion.

The major contracts are: Mitsui Fudosan Residential Co., Ltd., Nomura Real Estate Development Co., Ltd., Mitsubishi Jisho Residence Co., Ltd., ITOCHU Property Development, Ltd., Toho Jisho Co., Ltd., Fujimi-Jisyo Co. Ltd, Sodegaura Kogyo Co., Ltd.: Makuhari Shintoshin Wakaba Residential Area Plan (Block B7) (tentative name) (Chiba); APA MANSION: new construction work of APA Hotel & Resort <Midosuji-honmachi Station Tower> (tentative name) (Osaka); Tokushukai Healthcare Corporation Ltd. : new construction work of Yamato Tokushukai Hospital (tentative name) (Kanagawa); Shikokuchuo-shi : new construction work of Shikokuchuo Civic Cultural Hall (Ehime), etc.

The net sales of completed construction contracts increased by 2.7%, compared to the previous fiscal year, to JPY 182.2 billion.

The major completed works are: Mitsui Fudosan Residential Co., Ltd.: Plan for Block 148 of Kashiwanoha Campus, East Wing (tentative name) (Chiba); AEON RETAIL Co., Ltd. : new construction work of AEON Izumo Shopping Center (tentative name) (Shimane); Kansai Airports : new construction work of the second phase area of the new passenger terminal building of the Kansai International Airport (Osaka); Tokyohakuzen Co., Ltd.: new construction work of Yotsugi funeral hall (Tokyo), etc.

(Reference) **Orders received, net sales and amount carried forward by division of Company**

(Units: in JPY millions)

Classification	Amount carried forward from previous fiscal year	Orders received for this fiscal year	Net sales of this fiscal year	Amount carried forward to following fiscal year
Civil Engineering	138,957	103,718	91,501	(151,175) 151,171
Building Construction	186,304	180,992	182,215	(185,081) 185,105
Total	325,262	284,711	273,717	(336,256) 336,276

(Note) The carried forward amount of overseas work included in the “amount carried forward to following fiscal year” is revised at the exchange rate at the end of the fiscal year to reflect the current situation of the exchange market.

The increased amount due to this revision is JPY 20 million, and the figures in parentheses are the amounts prior to the revision.

## **(2) Status of Capital Expenditures**

The total amount of capital expenditures spent during this consolidated fiscal year was JPY 3.1 billion, which primarily consisted of purchase and renewal, etc., of buildings for business use, and machinery and equipment.

## **(3) Status of Funding**

The Company has not procured funds through capital increase or bond issuance, etc. during this consolidated fiscal year.

## **(4) Issues to be Addressed**

Although the political turmoil in the U.S. and Europe, the situation in respect of North Korea and the downturn in the economies of the emerging countries pose a risk to the future of the Japanese economy, the economic condition is expected to continuously recover gradually, as the employment and income environment continue to improve and various measures come into effect.

Although residential investments are expected to move within the leveling range in the immediate future, the business environment in the construction industry is expected to continue to develop favorably, as capital expenditure continues to recover in a backdrop of improving corporate earnings, and as public investment is expected to develop at a high level pursuant to the implementation of budgets. On the other hand, we need to continue to note the risks of continued shortage and high cost of construction engineers and technical personnel.

Under such circumstances, the Group, in the movement toward “growth” from “rehabilitation,” is striving to prepare for the earning foundation in the future by formulating the “Midterm Management Plan (Fiscal years 2015-2017)” with the aim to ensure stable profitability in the future that is not affected by market conditions.

Under the current construction market, in addition to the earthquake recovery work in Tohoku as well as reinforcement and deterioration countermeasures of social infrastructure, a certain construction demand is expected in the medium term, such as the investments related to the Tokyo Olympics and Paralympics in 2020 and the new installation of the Linear Chuo Shinkansen. However, on and after 2020, the overall construction market is expected to shrink as the quality of social infrastructure development will change from building “new” infrastructures to “maintaining and renewing” existing infrastructures. In order to establish a stable earning foundation in the future that is not affected by the market environment, the

Group will focus on a growth strategy that incorporates synergistic effect by working cooperatively among the group companies.

In order to realize “quality of happiness” that provides continued satisfaction to people gathering at or using the architectural construction, not only shall the Company value the exterior and functional quality of the architectural construction, but also aim to become a “construction service business operator” that delivers maximum “excitement” to our customers under the slogan of “Management by All.”

Please note that GAEART Co., Ltd., one of our subsidiaries, received a cease and desist order and surcharge payment order from the Japan Fair Trade Commission on September 6, 2016 for violating the Anti-monopoly Act with respect to road construction work ordered by East Nippon Expressway Company Limited. In addition, on September 7, 2016, GAEART Co., Ltd. was fined and its related persons were given suspended prison terms by the Tokyo District Court, and such court determination became final and conclusive.

The Group sincerely regrets that it was unable to prevent the occurrence of such misconduct even though it has long sought for compliance with laws and thorough implementation of corporate ethics. We are sincerely sorry and apologize for causing such substantial trouble and concerns to all related parties, including our shareholders and customers.

The Group solemnly and sincerely accepts and acknowledges this matter, and all of the Group officers and employees will again ensure thorough compliance with laws and endeavor so as to promptly regain your trust.

In addition, with respect to the condominium located in Yokohama, in which the Company’s construction defect was found in 2014, a substantial amount of provision for contingent loss was recorded. Recently, the management association of the said condominium resolved at an extraordinary meeting to rebuild the condominium, and it was decided that the Company will conduct such rebuilding construction. Upon performing such construction, the whole Company will make ardent efforts in order to promptly deliver safe and high-quality residence.

As the building contractor, we feel deeply responsible for the construction defects issues of the said condominium, and sincerely apologize to all related parties, including the owners, the residents and the shareholders, for the substantial trouble and concerns that we have caused.

We would like to ask our shareholders for your continued understanding and kind support.

## (5) Changes in Financial Conditions and Results of Operations

### (i) Changes in Financial Conditions and Results of Operations of Group

Classification	Units	77th fiscal year (Fiscal year ended March 31, 2014)	78th fiscal year (Fiscal year ended March 31, 2015)	79th fiscal year (Fiscal year ended March 31, 2016)	80th fiscal year (This consolidated fiscal year) (Fiscal year ended March 31, 2017)
Net sales	JPY million	328,900	362,090	343,647	344,706
Profits attributable to owners of parent	JPY million	4,299	5,458	12,092	16,433
Basic earnings per share	JPY	19.71	15.72	32.35	43.99
Total assets	JPY million	235,929	255,514	255,525	271,908
Net assets	JPY million	50,461	53,551	64,933	80,288

(Note) “Basic earnings per share” is calculated based on the average number of shares of the common stock during the fiscal year.

### (ii) Changes in Financial Conditions and Results of Operations of Company

Classification	Units	77th fiscal year (Fiscal year ended March 31, 2014)	78th fiscal year (Fiscal year ended March 31, 2015)	79th fiscal year (Fiscal year ended March 31, 2016)	80th fiscal year (This fiscal year) (Fiscal year ended March 31, 2017)
Orders received	JPY million	291,024	329,495	293,558	284,711
Net sales	JPY million	256,875	288,158	267,497	273,717
Profit	JPY million	3,536	6,778	10,392	13,986
Basic earnings per share	JPY	16.14	19.47	27.73	37.33
Total assets	JPY million	187,830	208,570	210,628	223,147
Net assets	JPY million	29,750	34,975	44,329	57,321

(Note) “Basic earnings per share” is calculated based on the average number of shares of the common stock during the fiscal year.

## (6) Status of Material Parent Company and Subsidiaries

### (i) Relationship with Parent Company

Not applicable.

## (ii) Status of Material Subsidiaries

Name	Capital	Company's investment ratio	Principal business activities
GAEART Co., Ltd.	JPY 1,000 million	100.00%	Contracting of pavement work, civil engineering work, etc. and business related thereto
Technos Co., Ltd.	JPY 470 million	100.00%	Contracting of civil engineering work, design, production and sales of construction materials and equipment and business related thereto
K & E Co., Ltd.	JPY 300 million	100.00%	Contracting of renewal and reform work of building and related business thereto
Taiwan Kumagai Co., Ltd.	NTD 600,000 thousand	100.00%	Contracting of building construction work, etc. and business related thereto

(Note) GAEART Co., Ltd. changed its trade name from GAEART TK Co., Ltd. as of October 1, 2016.

There are seven (7) consolidated subsidiaries, including the above-mentioned four (4) material subsidiaries, and three (3) equity-method affiliates.

## (7) Principal Business Activities

The Group engages mainly in construction business and related surrounding business thereof. As the principal group company, the Company has obtained the approval as a special construction business operator “(Toku-24) No. 1200” from the Minister of Land, Infrastructure, Transport and Tourism pursuant to the Construction Business Act, and engages in civil engineering, building construction business and business related thereto.

## (8) Principal Offices, etc.

### (i) The Company

Head Office:	2-6-8, Chuo, Fukui-shi
Tokyo Head Office:	2-1, Tsukudo-cho, Shinjuku-ku, Tokyo
Branches:	Hokkaido Branch (Sapporo-shi, Hokkaido), Tohoku Branch (Sendai-shi, Miyagi), Metropolitan Branch (Shinjuku-ku, Tokyo), Nagoya Branch, Hokuriku Branch (Kanazawa-shi, Ishikawa), Kansai Branch (Osaka-shi, Osaka), Chushikoku Branch (Hiroshima-shi, Hiroshima), Shikoku Branch (Takamatsu-shi, Kagawa), Kyushu Branch (Fukuoka-shi, Fukuoka), International Branch (Shinjuku-ku, Tokyo)
Technical Research Institute:	(Tsukuba-shi, Ibaraki)

Overseas Offices: China (Hong Kong), Taiwan, Vietnam, Sri Lanka,  
Myanmar

(Note) The Company established the Shikoku Branch as of April 1, 2016.

(ii) Principal Subsidiaries

GAEART Co., Ltd. (Shinjuku-ku, Tokyo)  
Technos Co., Ltd. (Toyokawa-shi, Aichi)  
K & E Co., Ltd. (Shinjuku-ku, Tokyo)  
Taiwan Kumagai Co., Ltd. (Taiwan)

**(9) Status of Employees**

(i) Status of Employees of Group

Number of employees	Changes from end of previous consolidated fiscal year
3,798 people	+96 people

(Note) The Number of employees is the number of persons actually working for the Company and group companies.

(ii) Status of Employees of Company

Number of employees	Changes from end of previous fiscal year	Average age	Average number of years of employment
2,305 people	+82 people	45.2 years old	20.7 years

(Note) The Number of employees is the number of persons actually working for the Company.

**(10) Principal Lenders**

Lenders	Borrowed amount (JPY million)
Sumitomo Mitsui Banking Corporation	3,200
Sumitomo Mitsui Trust Bank, Limited.	1,687
The Gunma Bank, Ltd.	1,475
THE HOKURIKU BANK, LTD.	1,375
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	937

**(11) Other Significant Matters Concerning Current Status of Group**

Not applicable.

## 2. Matters Regarding Shares of Company

### (1) Total Number of Shares Authorized to be Issued

714,000,000 shares

### (2) Total Number of Shares Issued

377,544,607 shares (including 3,097,013 shares as treasury shares)

### (3) Number of Shareholders

52,764 (decrease by 4,686 shareholders, compared to the end of the previous fiscal year)

### (4) Principal Shareholders (Top 10 Shareholders)

Name of shareholders	Number of shares held (thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	27,391	7.32
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,755	6.08
Kumagai Gumi Business Partner Shareholding Association	17,023	4.55
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	7,274	1.94
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,582	1.76
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,458	1.72
CREDIT SUISSE SECURITIES (EUROPE) LIMITED PB OMNIBUS CLIENT ACCOUNT	6,207	1.66
Sumitomo Mitsui Banking Corporation	5,913	1.58
HAYAT	5,279	1.41
NORTHERN TRUST GLOBAL SERVICES LIMITED, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15.315 PCT NON TREATY ACCOUNT	4,956	1.32

(Note) The “percentages of shares held” are calculated by excluding the treasury shares.

## 3. Matters Regarding Stock Acquisition Rights, etc. of Company

Not applicable.

## 4. Matters Regarding Officers

### (1) Name, etc. of Directors and Audit & Supervisory Board Members

Title	Name	Assignment in Company and Status of Major Concurrent Offices
President (Representative Director)	Yasushi Higuchi	In charge of Quality and Environment, In charge of Health and Safety
Director and Executive Vice President (Representative Director)	Kazuo Ishigaki	
Senior Managing Director	Susumu Ogawa	In charge of International Business/Domestic Architectural Marketing
Senior Managing Director	Toshiaki Hotta	General Manager of the Architectural Management Division
Managing Director	Yasunori Sakurano	General Manager of the Corporate Planning Division, General Manager of the Diversity Promotion Office of the Corporate Planning Division
Managing Director	Yoshihiko Kato	General Manager of the Civil Engineering Management Division, General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division
Director	Koichi Hironishi	Attorney-at-law
○ Director	Mikie Yumoto	
Full-Time Audit & Supervisory Board Member	Tadanao Takema	
Full-Time Audit & Supervisory Board Member	Tsukasa Yoshikawa	
Audit & Supervisory Board Member	Takashi Kakimi	
Audit & Supervisory Board Member	Masaaki Ayukawa	Certified Public Accountant, Outside Director (Audit & Supervisory Committee Member) of AUCNET INC.

- (Note)
1. Directors, Mr. Koichi Hironishi and Ms. Mikie Yumoto are both Outside Directors.
  2. Audit & Supervisory Board Members, Messrs. Takashi Kakimi and Masaaki Ayukawa are both Outside Audit & Supervisory Board Members.
  3. Directors, Mr. Koichi Hironishi and Ms. Mikie Yumoto, and Audit & Supervisory Board Members, Messrs. Takashi Kakimi and Masaaki Ayukawa are registered as independent officers who are not likely to have any conflict of interests with the general shareholders pursuant to the rules of the Tokyo Stock Exchange.
  4. The Director with the circle (○) was newly appointed as Director at the 79th ordinary general meeting of shareholders held on June 29, 2016.
  5. Full-Time Audit & Supervisory Board Member, Mr. Tsukasa Yoshikawa has an experience as the General Manager of the Accounting Department of the Company and has considerable knowledge concerning finance and accounting.
  6. Audit & Supervisory Board Member, Mr. Masaaki Ayukawa is qualified as a certified public accountant and has considerable knowledge concerning finance and accounting.
  7. The Director who retired during this fiscal year:
 

Director	Masayuki Kusaoke	(Retired as of June 29, 2016)
Senior Managing Director	Toshiaki Hotta	(Resigned as of March 31, 2017)
  8. As of April 1, 2017, the assignments of Directors have changed as follows:
 

Senior Managing Director	Susumu Ogawa	In charge of International Business, In charge of Marketing
Senior Managing Director	Yasunori Sakurano	General Manager of the Corporate Planning Division

Senior Managing Director	Yoshihiko Kato	General Manager of the Civil Engineering Management Division, General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division
Director	Kazuo Ishigaki	

The Company has introduced the Executive Officer System. The Executive Officers as of March 31, 2017 are as follows:

* Executive President	Yasushi Higuchi	Executive Officer	Hiroshi Iida
* Executive Vice President	Kazuo Ishigaki	Executive Officer	Kunitaka Nishikawa
* Senior Managing Executive Officer	Susumu Ogawa	Executive Officer	Masamichi Kokuzawa
* Senior Managing Executive Officer	Toshiaki Hotta	Executive Officer	Katsuhiko Hayashi
* Managing Executive Officer	Yasunori Sakurano	Executive Officer	Koji Hidaka
* Managing Executive Officer	Yoshihiko Kato	Executive Officer	Kenji Kishi
Managing Executive Officer	Satoshi Shibukawa	Executive Officer	Masao Kajiyama
Managing Executive Officer	Yoshiaki Ogawa	Executive Officer	Takumi Otsuka
Managing Executive Officer	Masahiko Takashima	Executive Officer	Shin Ueda
Managing Executive Officer	Akira Yamazaki	Executive Officer	Masaki Ohno
Executive Officer	Kunihiko Oshima	Executive Officer	Koji Okaichi
Executive Officer	Yoshinao Tsuchiya		

- (Note) 1. Executive Officers marked with asterisks (\*) are Executive Officers concurrently serving as Directors.
2. Executive Vice President, Mr. Kazuo Ishigaki, Executive Officers, Messrs. Yoshinao Tsuchiya, Kunitaka Nishikawa and Takumi Otsuka retired from their respective positions as Executive Officer as of March 31, 2017.
3. As of April 1, 2017, the position of Executive Officer has changed as follows:

Executive Vice President	Toshiaki Hotta	Managing Executive Officer	Kenji Kishi
Executive Vice President	Masahiko Takashima	Managing Executive Officer	Shin Ueda
Senior Managing Executive Officer	Yasunori Sakurano	○ Executive Officer	Kunito Hoshi
Senior Managing Executive Officer	Yoshihiko Kato	○ Executive Officer	Norio Sumiyoshi
Senior Managing Executive Officer	Satoshi Shibukawa	○ Executive Officer	Hideyuki Tsukuda
Senior Managing Executive Officer	Yoshiaki Ogawa	○ Executive Officer	Hisato Nagata
Managing Executive Officer	Hiroshi Iida	○ Executive Officer	Takahiko Kashihara
Managing Executive Officer	Koji Hidaka	○ Executive Officer	Kazuhiko Kawamura

(Note) Executive Officers with circles (○) are newly appointed Executive Officers.

## **(2) Summary of Liability Limitation Agreement**

The Company has entered into an agreement with all of the Outside Directors and Audit & Supervisory Board Members which limits the liability for damages set forth in Article 423, Paragraph 1 of the Companies Act. The amount of liabilities for damages under said agreement is limited to the amount prescribed in Article 425, Paragraph 1 of the Companies Act.

## **(3) Total Amount of Compensation, etc. for Directors and Audit & Supervisory Board Members**

Directors:	Nine (9) persons	JPY 152 million	(Including two (2) Outside Directors : JPY 14 million)
Audit & Supervisory Board Members:	Four (4) persons	JPY 39 million	(Including two (2) Outside Audit & Supervisory Board Members : JPY 16 million)

(Note) The amounts of compensation approved by the ordinary general meeting of shareholders were “JPY 30 million per month or less” for Directors, and “JPY 5 million per month or less” for Audit & Supervisory Board Members.

## **(4) Matters Concerning Outside Officers**

Directors, Mr. Koichi Hironishi and Ms. Mikie Yumoto are both Outside Directors.

Furthermore, Audit & Supervisory Board Members, Messrs. Takashi Kakimi and Masaaki Ayukawa are both Outside Audit & Supervisory Board Members.

### **(i) The Company’s Relationship with Organization, etc. Where Outside Officers Hold Material Concurrent Office**

Audit & Supervisory Board Member, Mr. Ayukawa is the Outside Director (Audit & Supervisory Committee Member) of AUCNET INC. The Company has no material relationships with said company.

### **(ii) Status of Principal Activities**

Director, Mr. Hironishi has attended fourteen (14) meetings out of seventeen (17) meetings of the Board of Directors, and has spoken, as necessary, mainly based on his abundant experience and extensive knowledge he acquired as a management executive of a different industry.

Director, Ms. Yumoto has attended all thirteen (13) meetings of the Board of Directors held since she became a Director on June 29, 2016, and has spoken, as necessary, mainly based on her abundant experience and extensive knowledge she acquired by participating in management as a management executive in charge of human resources of a different industry.

Audit & Supervisory Board Member, Mr. Kakimi has attended sixteen (16) meetings out of seventeen (17) meetings of the Board of Directors held during this fiscal year, as well as all twelve (12) meetings of Audit & Supervisory Board, and has spoken, as necessary, mainly from a professional perspective as an attorney-at-law.

Audit & Supervisory Board Member, Mr. Ayukawa has attended all seventeen (17) meetings of the Board of Directors as well as all twelve (12) meetings of Audit & Supervisory Board held during this fiscal year, and has spoken, as necessary, mainly from a professional perspective as a certified public accountant.

## **5. Status of Accounting Auditor**

### **(1) Name of Accounting Auditor**

GYOSEI & CO.

### **(2) Amount of Compensation, etc., of Accounting Auditors for this Fiscal Year**

- (i) Amount of Compensation, etc. Relating to Services Set Forth in Article 2, Paragraph 1 of the Certified Public Accountant Act  
JPY 52 million
- (ii) Total Amount of Cash or Other Economic Benefits Payable from Company or Its Subsidiaries  
JPY 72 million

- (Note):
1. Based on the “Practical Guidance Concerning Cooperation with Accounting Auditors” released by the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board of the Company confirmed the audit hours by audit items, changes in audit compensations as well as the performance status to the audit plans of the prior periods, and as a result of considering the audit hours of this fiscal year and the appropriateness of the compensation amount, it gave the consent prescribed in Article 399, Paragraph 1 of the Companies Act with respect to the compensation, etc. of the Accounting Auditors.
  2. The audit contract between the Company and the Accounting Auditor does not separate the compensation for the audit under the Companies Act from the compensation for the audit under the Financial Instruments and Exchange Act. Accordingly, the amount stated in (i) above includes the amount of compensation, etc., for audit under the Financial Instruments and Exchange Act.
  3. Taiwan Kumagai Co., Ltd., a subsidiary of the Company, is audited by a certified public accountant other than the Accounting Auditor of the Company.

### **(3) Policy for Determination of Dismissal or Non-reappointment of Accounting Auditors**

The Audit & Supervisory Board dismisses an Accounting Auditor pursuant to the Rules of the Audit & Supervisory Board and upon the unanimous consent of all Members of the Audit & Supervisory Board in the case where the Company decides that such Accounting Auditor falls under Article 340, Paragraph 1 of the Companies Act. In such case, the Audit & Supervisory

Board Members designated by the Board of Directors will explain the dismissal of such Accounting Auditor and the reason for such dismissal at the first general meeting of shareholders after such dismissal. Furthermore, when the Accounting Auditor is determined to pose problem as Accounting Auditor, a proposal of dismissal or non-reappointment will be submitted to the general meeting of shareholders pursuant to the resolution of the Audit & Supervisory Board.

## **6. Structure and Policy of Company**

### **(1) Structure to Ensure that Duties of Directors Are Executed in Compliance with Laws, Regulations and Articles of Incorporation and Other Structures to Ensure Operations Are Appropriately Conducted**

The details of the above-mentioned structures, which were resolved by the Board of Directors of the Company, are as follows:

Based on the understanding that it is essential to enhance the effectiveness of corporate governance in order to realize the “management philosophy” under which “we aim to be a corporate group that contributes to society through its business activities, with construction as its core,” the Company shall develop the following structures concerning internal control systems:

#### **1. Structure to Ensure that Duties of Directors and Employees are Executed in Compliance with Laws, Regulations and Articles of Incorporation**

- (i) The Company shall establish and thoroughly implement the Code of Corporate Conduct for all of the Directors, Executive Officers (hereinafter collectively the “Officers”) and employees.
- (ii) The Administration Division shall develop an overall compliance structure and provide guidance regarding legal issues, each division administering individual laws and regulations shall maintain and develop the legal compliance system and the Internal Audit Department shall develop a structure that audits the compliance status of the execution of operations.
- (iii) With respect to the procedures required for the Officers and employees to execute their duties, the Company shall establish internal rules, such as Rules on Organization, Rules on Allocation of Duties, Rules on Management Authority and Rules on Decision Making Procedures.
- (iv) The Company shall establish a periodic educational/training system concerning legal compliance.

- (v) The Company shall develop a structure where the top management, such as the Officers and Branch Managers, thoroughly inform the employees, on a daily basis, compliance with laws, regulations, the Articles of Incorporation, internal rules, etc. in respect of business operations.
- (vi) The Company shall establish an internal reporting system aiming to prevent misconduct or deterioration of a situation by ascertaining and correcting acts violating laws and wrongful acts at an early stage and to prevent the occurrence of acts violating laws by having the employees mutually checking and balancing each other.
- (vii) The Legal Compliance Audit Committee, an organization independent from the management, shall evaluate the compliance structure from an external perspective and report and make proposals to the management.
- (viii) The Company shall clearly state in the “Kumagai Gumi Code of Conduct” and “Compliance Program” that any relationships with anti-social forces shall be severed, take a resolute stance and firmly reject any unlawful demands from anti-social forces and thoroughly implement such code and program.

## 2. Structure for Storing and Managing Information Relating to Directors Executing their Duties

The Company shall develop and thoroughly implement internal rules in order to properly store and manage various information relating to the Directors executing their duties.

## 3. Rules and Other Structures for Managing Risk of Loss

- (i) In order to manage risks according to the contents of the risks, the risks assumed under business operations are classified into departments, and the department in charge shall prepare manuals, etc.
- (ii) In order to properly manage risks, the Company shall establish internal rules, such as Rules on Compliance, Rules on Decision Making Procedures and Rules on Internal Audits, and establish cross sectional company-wide committees for matters where multifaceted risks need to be considered.
- (iii) The Company shall develop a structure for the Directors to timely receive reports on important matters under risk management.

## 4. Structure to Ensure Efficient Execution of Duties by Directors

- (i) The Company shall adopt the Executive Officer System so that the Directors can exercise their duties efficiently.
- (ii) With respect to material management issues, such as management strategy, the budget for each department, capital expenditures, the Board of Directors shall make decisions after the points in question and issues are clarified at the Management Meeting.

- (iii) The Company shall set up the Officer-Branch Manager Meetings in order to thoroughly implement and inform the Executive Officer and Branch Managers of the policies, etc. on addressing management strategies and management issues.

#### 5. Structure to Ensure Operations are Appropriately Conducted within Group Consisting of Company and its Subsidiaries

- (i) The Company shall establish Rules on Administration and Management of Domestic Group Companies and Rules on Administration and Management of Overseas Group Companies and develop a structure that administers and supports the overall management of the group companies by, for example, obtaining the management status of the group companies, appropriately reporting and responding to risks and building a structure for exercising duties efficiently.
- (ii) The Company shall establish the Group Management Promotion Committee from the perspective of group management and confirm the performance and consider the management issues of each of the group companies.
- (iii) The Company shall spread and thoroughly inform the group companies of the purport of the Company's Compliance Program so that they can conduct business operations in compliance with laws, regulations, the Articles of Incorporation, internal rules, etc. Furthermore, the employees of the group companies may directly report to the Company's contact desk pursuant to the internal reporting system of the Company.
- (iv) The Company shall develop a structure so that the Company can provide guidance to the group companies to develop an appropriate internal control system.
- (v) The Company shall procure each group company to have a corporate auditor and establish Rules on Audits by Corporate Auditors of Group Companies in order for audits to be properly carried out. Furthermore, the Company shall prepare for situations where the Internal Audit Department of the Company audits the compliance status of the group companies in executing operations.

#### 6. Matters Concerning Audits by Audit & Supervisory Board Members

##### (1) Matters Concerning Employee Assisting with Duties of Audit & Supervisory Board Member when Such Member Requests Assignment of Such Employee

When an Audit & Supervisory Board Member requests the assignment of an employee to assist with his/her duties, the Board of Directors shall assign, upon consultation with the Audit & Supervisory Board Member, such employee to assist with the duties of such Member.

##### (2) Matters Concerning Independence of Employee Set Forth in Preceding Paragraph from Directors and Ensuring Effectiveness of Audit & Supervisory Board Member's Instructions to Such Employee

When an employee is assigned to assist with the duties of an Audit & Supervisory Board Member, the prior consent of the Full-time Audit & Supervisory Board Member shall be obtained to make decisions on personnel related matters, such as the appointment and transfer of such employee. Furthermore, when such employee assists with the duties of the Audit & Supervisory Board Member, such duties shall be performed in accordance with the instructions and orders of the Audit & Supervisory Board Member.

(3) Structure Concerning Reporting by Directors and Employees of Company and its Subsidiaries and Corporate Auditors of Subsidiaries to Audit & Supervisory Board Member.

- (i) In the audits by the Audit & Supervisory Board Members, the Officers and employees of the Company and group companies and the corporate auditors of the group companies shall report on the execution status, etc. of the duties that they are in charge of. Furthermore, the Company shall develop a structure where the Audit & Supervisory Board Member of the Company can attend important meetings, such as the Board of Director’s meetings and Management Meetings, obtain the status of the execution of operations and request reports, as necessary, from the Officers and employees.
- (ii) The Company and the group companies shall prohibit any person set forth in the preceding paragraph who reported to the Audit & Supervisory Board Member from being treated unreasonably for such report.
- (iii) The necessary expenses and obligations arising from the Audit & Supervisory Board Member performing his/her duties shall be promptly handled after a request has been made by the Audit & Supervisory Board Member.

(4) Other Structures to Ensure that Audits by Audit & Supervisory Board Members are Conducted Effectively

In order to enhance the effectiveness of audits by the Audit & Supervisory Board Members, the Company shall develop a structure where the Audit & Supervisory Board Members confirm the results of the audit by the Accounting Auditor and the Internal Audit Department and exchange opinions with them.

**(2) Summary of Operating Status of Structures to Ensure Operations Are Appropriately Conducted**

With respect to the structure to ensure that the duties of the Directors are executed in compliance with laws, regulations and the Articles of Incorporation and other structures to ensure operations are appropriately conducted, a summary of the operating status for this fiscal year (from April 1, 2016 to March 31, 2017) is as follows:

### 1. Overall Internal Control

The Board of Directors of the Company consists of eight (8) Directors, including two (2) Outside Directors, and the meetings of the Board of Directors were held seventeen (17) times with the attendance of four (4) Audit & Supervisory Board Members and the legality of the execution of the duties of the Directors is ensured. Furthermore, the Board of Directors appointed the Executive Officers and each Executive Officer is performing his/her duties within the scope of his/her authority and responsibility under the instruction and supervision of the Representative Director.

In addition, the Management Meetings were held twenty (20) times and the Officer-Branch Manager Meeting were held four (4) times.

For executing duties, internal rules, such as Rules on Organization, Rules on Allocation of Duties, Rules on Management Authority and Rules on Decision Making Procedures, are established, and necessary procedures are implemented in accordance with the internal rules.

### 2. Compliance Structure

In order to enhance and practice management that complies with laws, the Company has established “Kumagai Gumi Code of Conduct” and “Compliance Program” and has implemented compliance training at the Head Office and all of the Branch Offices once every year. Furthermore, the Company has set up an internal reporting system that includes the group companies and established a reporting desk independent from the management.

Moreover, the Legal Compliance Audit Committee meets once every year for annual overview and meets from time to time for other individual cases and receives assessments independent from the management.

### 3. Risk Management Structure

The Company has established internal rules, such as Rules on Compliance, Rules on Decision Making Procedures and Rules on Internal Audit, in order to appropriately manage risks, and has established individual manuals, etc. for the risks assumed under business operations to manage risks according to their content. Furthermore, as a response to the occurrence of a large-scale disaster, etc., the Company has developed a business continuity plan and established the Crisis Management Committee.

In addition, in order to consider multifaceted risks, cross sectional company-wide committees, such as the Project Review Committee on Awarded Contracts, New Business Committee and International Business Promotion Committee, have been established.

#### 4. Group Administration Structure

The Company has established Rules on Administration and Management of Domestic Group Companies and Rules on Administration and Management of Overseas Group Companies and developed an administrative structure for overall group management. Furthermore, the Company held four (4) meetings of the Group Management Promotion Committee and confirmed the performance and considered the management issues of individual group companies.

Furthermore, in addition to causing some of the group companies to participate in compliance training sessions, when a material compliance breach occurs at individual group companies, a report is made to the Board of Directors of the Company as necessary.

#### 5. Audit Structure

The Audit & Supervisory Board shall obtain the status of the execution of the operations of the Company and the group companies by attending important meetings, such as the meetings of the Board of Directors or Management Meetings, and through reports from the group companies, etc.

In addition, the Audit & Supervisory Board shall confirm the results of the audits audited by the Accounting Auditor and the Internal Audit Department and exchange opinions with the Representative Director, the Outside Directors, the Accounting Auditors, the Internal Audit Department, etc.

The Internal Audit Department shall conduct internal audits of the Company and group companies in accordance with annual plans.

### **(3) Basic Policy Concerning Control of Company**

Not applicable.

## Consolidated Balance Sheet

(As of March 31, 2017)

ASSETS		LIABILITIES	
	(JPY million)		(JPY million)
<b>CURRENT ASSETS</b>	<b>228,829</b>	<b>CURRENT LIABILITIES</b>	<b>166,618</b>
Cash and deposits	73,930	Notes payable, accounts payable for construction contracts and other	69,707
Notes receivable, accounts receivable from completed construction contracts and other	124,412	Electronically recorded obligations - operating	27,283
Costs on uncompleted construction contracts	7,115	Short-term loans payable	12,427
Deferred tax assets	6,041	Income taxes payable	2,979
Accounts receivable - other	10,869	Advances received on uncompleted construction contracts	14,612
Other	6,595	Deposits received	13,234
Allowance for doubtful accounts	(135)	Provision for warranties for completed construction	606
<b>NON-CURRENT ASSETS</b>	<b>43,078</b>	Provision for loss on construction contracts	370
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>17,199</b>	Provision for contingent loss	13,917
Buildings and structures	4,751	Provision for bonuses	3,621
Machinery, vehicles, tools, furniture and fixtures	1,769	Other	7,857
Land	10,095	<b>NON-CURRENT LIABILITIES</b>	<b>25,001</b>
Leased assets	81	Long-term loans payable	2,994
Construction in progress	501	Net defined benefit liability	21,824
<b>INTANGIBLE ASSETS</b>	<b>441</b>	Other	182
<b>INVESTMENTS AND OTHER ASSETS</b>	<b>25,437</b>	<b>TOTAL LIABILITIES</b>	<b>191,619</b>
Investment securities	16,225	NET ASSETS	
Long-term loans receivable	970	<b>Shareholders' equity</b>	<b>75,845</b>
Long-term non-operating accounts receivable	283	<b>Capital stock</b>	<b>13,341</b>
Claims provable in bankruptcy, claims provable in rehabilitation and other	74	<b>Capital surplus</b>	<b>7,880</b>
Deferred tax assets	5,515	<b>Retained earnings</b>	<b>55,377</b>
Other	2,665	<b>Treasury shares</b>	<b>(753)</b>
Allowance for doubtful accounts	(296)	<b>Accumulated other comprehensive income</b>	<b>4,443</b>
		<b>Valuation difference on available-for-sale securities</b>	<b>4,428</b>
		<b>Foreign currency translation adjustment</b>	<b>388</b>
		<b>Remeasurements of defined benefit plans</b>	<b>(374)</b>
		<b>TOTAL NET ASSETS</b>	<b>80,288</b>
<b>TOTAL ASSETS</b>	<b>271,908</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>271,908</b>

## Consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

<b>NET SALES</b>	(JPY million)	(JPY million)
Net sales of completed construction contracts	344,706	344,706
<b>COST OF SALES</b>		
Cost of sales of completed construction contracts	303,625	303,625
<b>Gross profit</b>		
Gross profit on completed construction contracts	41,080	41,080
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		15,945
<b>Operating profit</b>		<b>25,135</b>
<b>NON-OPERATING INCOME</b>		
Interest and dividend income	145	
Compensation for damage income	124	
Reversal of allowance for doubtful accounts	105	
Share of profit of entities accounted for using equity method	91	
Other	114	581
<b>NON-OPERATING EXPENSES</b>		
Interest expenses	286	
Other	70	357
<b>Ordinary profit</b>		<b>25,358</b>
<b>EXTRAORDINARY INCOME</b>		
Gain on sales of memberships	27	
Gain on sales of non-current assets	15	
Other	4	47
<b>EXTRAORDINARY LOSSES</b>		
Provision for contingent loss	1,792	
Loss on abolishment of retirement benefit plan	472	
Other	407	2,673
<b>Profit before income taxes</b>		<b>22,733</b>
Income taxes – current	6,131	
Income taxes – deferred	167	6,299
<b>Profit</b>		<b>16,433</b>
<b>Profit attributable to owners of parent</b>		<b>16,433</b>

## Consolidated Statement of Changes in Equity

(From April 1, 2016 to March 31, 2017)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
	(JPY million)	(JPY million)	(JPY million)	(JPY million)	(JPY million)
Balance at beginning of current period	13,341	7,879	40,442	(659)	61,004
Changes of items during period					
Dividends of surplus			(1,499)		(1,499)
Profit attributable to owners of parent			16,433		16,433
Purchase of treasury shares				(95)	(95)
Disposal of treasury shares		0		1	1
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	14,934	(94)	14,840
Balance at end of current period	13,341	7,880	55,377	(753)	75,845

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
	(JPY million)	(JPY million)	(JPY million)	(JPY million)	(JPY million)
Balance at beginning of current period	3,850	394	(315)	3,929	64,933
Changes of items during period					
Dividends of surplus					(1,499)
Profit attributable to owners of parent					16,433
Purchase of treasury shares					(95)
Disposal of treasury shares					1
Net changes of items other than shareholders' equity	577	(5)	(58)	514	514
Total changes of items during period	577	(5)	(58)	514	15,355
Balance at end of current period	4,428	388	(374)	4,443	80,288

## Nonconsolidated Balance Sheet

(As of March 31, 2017)

ASSETS		LIABILITIES	
	(JPY million)		(JPY million)
<b>CURRENT ASSETS</b>	<b>188,286</b>	<b>CURRENT LIABILITIES</b>	<b>144,138</b>
Cash and deposits	56,175	Notes payable - trade	8,261
Notes receivable - trade	4,260	Electronically recorded obligations - operating	27,283
Accounts receivable from completed construction contracts	99,259	Accounts payable for construction contracts	45,081
Costs on uncompleted construction contracts	6,007	Short-term loans payable	12,162
Deferred tax assets	5,399	Lease obligations	13
Accounts receivable - other	11,093	Income taxes payable	2,765
Other	6,205	Advances received on uncompleted construction contracts	13,346
Allowance for doubtful accounts	(115)	Deposits received	11,683
<b>NON-CURRENT ASSETS</b>	<b>34,860</b>	Provision for warranties for completed construction	523
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>9,567</b>	Provision for loss on construction contracts	174
Buildings and structures	1,964	Provision for contingent loss	13,706
Machinery and vehicles	108	Provision for bonuses	2,306
Tools, furniture and fixtures	195	Other	6,830
Land	7,273	<b>NON-CURRENT LIABILITIES</b>	<b>21,686</b>
Leased assets	25	Long-term loans payable	2,895
Construction in progress	0	Lease obligations	22
<b>INTANGIBLE ASSETS</b>	<b>242</b>	Provision for retirement benefits	18,711
<b>INVESTMENTS AND OTHER ASSETS</b>	<b>25,050</b>	Other	57
Investment securities	12,869	<b>TOTAL LIABILITIES</b>	<b>165,825</b>
Shares of subsidiaries and associates	5,802	NET ASSETS	
Long-term loans receivable	1,405	<b>Shareholders' equity</b>	<b>52,960</b>
Long-term non-operating accounts receivable	134	<b>Capital stock</b>	<b>13,341</b>
Claims provable in bankruptcy, claims provable in rehabilitation and other	41	<b>Capital surplus</b>	<b>7,880</b>
Long-term prepaid expenses	27	Other capital surplus	7,880
Deferred tax assets	4,015	<b>Retained earnings</b>	<b>32,370</b>
Other	840	Legal retained earnings	297
Allowance for doubtful accounts	(86)	Other retained earnings	32,073
		Retained earnings brought forward	32,073
		<b>Treasury shares</b>	<b>(632)</b>
		<b>Valuation and translation adjustments</b>	<b>4,361</b>
		<b>Valuation difference on available-for-sale securities</b>	<b>4,361</b>
		<b>TOTAL NET ASSETS</b>	<b>57,321</b>
<b>TOTAL ASSETS</b>	<b>223,147</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>223,147</b>

## Nonconsolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

NET SALES	(JPY million)	(JPY million)
Net sales of completed construction contracts	273,717	273,717
<b>COST OF SALES</b>		
Cost of sales of completed construction contracts	241,179	241,179
<b>Gross profit</b>		
Gross profit on completed construction contracts	32,538	32,538
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
		11,453
<b>Operating profit</b>		
		<b>21,084</b>
<b>NON-OPERATING INCOME</b>		
Interest and dividend income]	817	
Compensation for damage income	124	
Other	186	1,127
<b>NON-OPERATING EXPENSES</b>		
Interest expenses	282	
Other	67	349
<b>Ordinary profit</b>		
		<b>21,862</b>
<b>EXTRAORDINARY INCOME</b>		
Gain on sales of memberships	27	
Gain on sales of investment securities	4	
Other	0	32
<b>EXTRAORDINARY LOSSES</b>		
Provision for contingent loss	1,801	
Loss on abolishment of retirement benefit plan	472	
Other	303	2,578
<b>Profit before income taxes</b>		
		<b>19,317</b>
Income taxes – current	4,943	
Income taxes – deferred	386	5,330
<b>Profit</b>		
		<b>13,986</b>

## Nonconsolidated Statement of Changes in Equity

(From April 1, 2016 to March 31, 2017)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		
		Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings
	(JPY million)	(JPY million)	(JPY million)	(JPY million)	(JPY million)	(JPY million)
Balance at beginning of current period	13,341	7,879	7,879	147	19,735	19,882
Changes of items during period						
Provision of legal retained earnings				149	(149)	-
Dividends of surplus					(1,499)	(1,499)
Profit					13,986	13,986
Purchase of treasury shares						
Disposal of treasury shares		0	0			
Net changes of items other than shareholders' equity						
Total changes of items during period	-	0	0	149	12,338	12,487
Balance at end of current period	13,341	7,880	7,880	297	32,073	32,370

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	(JPY million)	(JPY million)	(JPY million)	(JPY million)	(JPY million)
Balance at beginning of current period	(539)	40,564	3,765	3,765	44,329
Changes of items during period					
Provision of legal retained earnings		-			-
Dividends of surplus		(1,499)			(1,499)
Profit		13,986			13,986
Purchase of treasury shares	(93)	(93)			(93)
Disposal of treasury shares	1	1			1
Net changes of items other than shareholders' equity			595	595	595
Total changes of items during period	(92)	12,396	595	595	12,992
Balance at end of current period	(632)	52,960	4,361	4,361	57,321

[Translation]

**Accounting Auditor's Audit Report Relating to the Consolidated Financial Statements**

**Independent Auditor's Audit Report**

May 11, 2017

The Board of Directors  
Kumagai Gumi Co., Ltd.

GYOSEI & CO.

Tetsuo Noguchi  
Certified Public Accountant  
Representative Partner  
Engagement Partner

Junya Takemura  
Certified Public Accountant  
Engagement Partner

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of Kumagai Gumi Co., Ltd. (the "Company") applicable to this fiscal year from April 1, 2016 through March 31, 2017.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2016 in conformity with accounting principles generally accepted in Japan.

#### *Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

[End]

[Translation]

**Accounting Auditor's Audit Report**

Independent Auditor's Audit Report

May 11, 2017

The Board of Directors  
Kumagai Gumi Co., Ltd.

GYOSEI & CO.

Tetsuo Noguchi  
Certified Public Accountant  
Representative Partner  
Engagement Partner

Junya Takemura  
Certified Public Accountant  
Engagement Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the accompanying nonconsolidated financial statements, which comprise the nonconsolidated balance sheet, the nonconsolidated statement of income, the nonconsolidated statement of changes in equity, the notes to the nonconsolidated financial statements and the related supplementary schedules of Kumagai Gumi Co., Ltd. (the "Company") applicable to the 80th fiscal year from April 1, 2016 through March 31, 2017.

*Management's Responsibility for the Financial Statements and the Related Supplementary Schedules*

Management is responsible for the preparation and fair presentation of these nonconsolidated financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the nonconsolidated financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these nonconsolidated financial statements and the related supplementary schedules based on our audit. We conducted our audit in

accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the nonconsolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements and the related supplementary schedules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the nonconsolidated financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of the Company applicable to the 79th fiscal year ended March 31, 2016 in conformity with accounting principles generally accepted in Japan.

#### *Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

[End]

[Translation]

## **The Audit & Supervisory Board's Audit Report**

### **Audit Report**

The Audit & Supervisory Board prepared this Audit Report upon deliberations based on the Audit Report prepared by each Audit & Supervisory Board Member concerning the performance of duties of the Directors of the Company during the 80th fiscal year from April 1, 2016 to March 31, 2017 and hereby reports as follows:

#### **1. Auditing Method by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details Thereof**

(1) The Audit & Supervisory Board established auditing policy, assignment of duties, etc. and received reports from each Audit & Supervisory Board Member on the implementation status and results of audits and further received reports from the Directors, etc. and the Accounting Auditors on the status of the execution of their duties and when necessary, requested explanations regarding such reports.

(2) In compliance with the Standards of Audit by Audit & Supervisory Board Members established by the Audit & Supervisory Board and in accordance with the auditing policy and the assigned duties, and by communicating with the Directors, the Audit Office, other employees, etc., each Audit & Supervisory Board Member strived to collect information and arrange an environment for auditing and implemented auditing using the following methods:

- A. The Audit & Supervisory Board Members attended the Board of Directors meetings and other important meetings, received from the Directors, employees, etc. reports on the matters regarding the status of the performance of their duties and, when necessary, requested explanations regarding such reports, inspected important authorized documents and associated information and examined the business and financial position of the Head Office and major offices. Furthermore, as for the subsidiaries of the Company, the Audit & Supervisory Board Member has communicated and shared information with the directors and corporate auditors, etc. of the subsidiaries and, when necessary, received reports from the subsidiaries regarding their businesses.
- B. With respect to the content of the resolution of the Board of Directors concerning the development of the structure prescribed in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act necessary to ensure the business operation of the group, consisting of the Company and its subsidiaries, are appropriate,

including the structure to ensure that the duties of the Directors are executed in compliance with laws, regulations and the Articles of Incorporation as described in the business report, and the structure developed based on such resolution (an internal control system), the Audit & Supervisory Board Members, in compliance with the Standards of Audit relating to Internal Control Systems established by the Board of Directors, received periodic reports from the Directors, employees, etc. on the construction and operation status thereof and, when necessary, requested explanations regarding such reports and expressed its opinions.

C. The Audit & Supervisory Board Members monitored and examined whether the Accounting Auditors maintained their independence and carried out audits in an appropriate manner. The Audit & Supervisory Board Members received from the Accounting Auditors reports on the performance of their duties and, when necessary, requested explanations regarding those reports. The Audit & Supervisory Board Members also received notification from the Accounting Auditors that the “Structure to ensure that the duties of the independent auditors are appropriately executed” (as enumerated in each Item of Article 131 of the Company Calculation Regulations) is being developed in accordance with the “Standards for Quality Control of Audits” (Business Accounting Council on October 28, 2005), etc. When necessary, the Audit & Supervisory Board Members requested explanations on such notification.

Based on the foregoing method, for this fiscal year, the Audit & Supervisory Board Members reviewed the Business Report and supplementary schedules, nonconsolidated financial statements (the nonconsolidated balance sheet, nonconsolidated statement of income, nonconsolidated statement of changes in equity and notes to the nonconsolidated financial statements) and supplementary schedules thereto as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to the consolidated financial statements).

## 2. Audit Results

### (1) Audit Results on Business Report, etc.

- A. In our opinion, the Business Report and the supplementary schedules fairly represent the Company’s condition in conformity with the applicable laws and regulations of Japan as well as the Articles of Incorporation of the Company.
- B. With regard to the execution of duties by the Directors, we have found no evidence of misconduct or material facts in violation of the applicable laws and regulations of Japan or the Articles of Incorporation of the Company in the course of the execution of duties

of the Directors.

C. In our opinion, the content of the resolutions of the Board of Directors regarding the internal control systems is appropriate.

We have not found anything to be pointed out on the description regarding the internal control systems set out in the Business Report or on the performance of duties of the Directors.

As stated in the Business Report, GAEART Co., Ltd., one of our subsidiaries, received a cease and desist order and surcharge payment order from the Japan Fair Trade Commission on September 6, 2016, for violating the Anti-monopoly Act. In addition, on September 7, 2016, GAEART Co., Ltd. was fined and its related persons were given suspended prison terms by the Tokyo District Court, and such court determination became final and conclusive. The Audit & Supervisory Board will continue to keep an observant eye in order to ensure the Group's strict compliance with laws and regulations .

(2) Results of Audit of Nonconsolidated Financial Statements and Supplementary Schedules thereto

In our opinion, the method and results of the audit employed and rendered by GYOSEI & CO., the Accounting Auditors, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the method and results of the audit employed and rendered by GYOSEI & CO., the Accounting Auditors, are fair and reasonable.

May 11, 2017

Kumagai Gumi Co., Ltd., Audit & Supervisory Board  
Full-time Audit & Supervisory Board Member, Tadao Takema  
Full-time Audit & Supervisory Board Member, Tsukasa Yoshikawa  
Outside Audit & Supervisory Board Member, Takashi Kakimi  
Outside Audit & Supervisory Board Member, Masaaki Ayukawa

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